

IT JUST ADDS UP

LESSON FIFTEEN Consumer Credit: Credit Cards TEACHERS

Introduction

Almost all of us have at least one credit card. Credit cards are a form of revolving credit, meaning we have a maximum limit to charge and monthly payments to repay the debt. Some of the advantages of using credit cards include: convenience, immediate use of products, relatively easy to get and easy to use, and safer than carrying cash. However, there are several costs associated with credit cards, such as interest rates, resulting in higher prices for the goods purchased. Interest on credit cards varies greatly from one card to another, and card issuers can raise the interest rate at any time. Because credit cards are so convenient, we must be very careful to avoid overspending. Knowing how to manage our credit is an important step to financial independence. Otherwise, we jeopardize our future by making poor choices that consume too much of tomorrow's income — making it difficult to pay our monthly bills and reach our financial goals.

Purpose

This lesson will help students understand the cost of using credit cards. Students will compute monthly payments on credit cards.

Definition of the Week

Credit Cards: A loan arrangement allowing consumers to make purchases and repay them in the future.

Procedure

1. Discuss what students know about credit cards; have them identify goods and services purchased with them. Put students in groups to make a list of "typical" monthly purchases on credit cards. Use newspaper ads to find costs of products or help them estimate the individual costs. Have each group total the monthly expenditures.
2. Tell them that credit card purchases have minimum monthly payments set by the issuer. [Note: the average APR on credit cards since 1990 is 15.69% (APR: annual percentage rate of interest)]. Credit card companies apply payments to interest first, with the remaining amount applied to the account balance. Have students use the following to calculate the amount of interest and total costs paid on that month's purchases. For this lesson, use 15.69% APR and minimum monthly payments of \$20. Monthly interest: $APR/12 \text{ months} = .1569 \times 12 = \underline{\hspace{2cm}}\%$ per month
Interest paid = interest rate per month x account balance
Example: Balance for month #1 = \$1,000; mo. int = \$13.08. With \$20 payment, \$13.08 is paid for interest and \$6.92 subtracted from balance — leaving \$993.08 as the balance for month #2. Have students repeat this for each month until balance is paid. Remind them the process is more complicated and more expensive if they continue charging on the card.

PARENT OPTION

Have your child compute the average interest rate paid on your family's credit cards. Help your child explore reliable sources of information on credit cards and consumer credit debt. Discuss the rights and responsibilities of using credit cards with your child. Research good ways to pay down your family's credit card debt, reducing your overall monthly payments. Help your child track the family's credit card purchases; call a family conference to explore ways of reducing family dependence on credit. Explore credit cards with lower interest rates and other credit options to reduce debt, such as refinancing debt or transferring balances to other credit cards. (Note: Remember to close accounts and cut up credit cards with paid-off balances when opening new accounts.)



Comparing Credit Cards

Feature	Card A	Card B	Card C
What is the APR (annual percentage rate of interest) on each card for the following:			
Purchases?			
Cash advances?	_____	_____	_____
Balance transfers?	_____	_____	_____
If you are late with a payment, does the APR increase?	_____	_____	_____
If so, to what?	_____	_____	_____
How long is the grace period?			
If you carry over a balance?	_____	_____	_____
If you pay off the balance each month?	_____	_____	_____
For cash advances?	_____	_____	_____
What are the fees?			
Annual	_____	_____	_____
Late-payment	_____	_____	_____
Over-the-credit-limit	_____	_____	_____
Set-up	_____	_____	_____
What are the cash advance features?			
Transaction fees	_____	_____	_____
Limits	_____	_____	_____
How much is the credit limit?	_____	_____	_____
What kind of card is it?			
Secured? Regular? Premium?	_____	_____	_____
Does the card offer other features?			
Rebates	_____	_____	_____
Frequent-flyer miles	_____	_____	_____
Insurance	_____	_____	_____
Other	_____	_____	_____

Based on comparison chart available at <http://www.federalreserve.gov/pubs/shop/checklist.htm>

Coming next week: Online Shopping

Newspapers for this educational program provided by: